

City of Detroit

OFFICE OF THE AUDITOR GENERAL



Audit of the
Planning and Development Department
Real Estate Division's
Sale of City-owned Property
December 2005




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MEMORANDUM

DATE: April 11, 2006

TO: Honorable City Council

FROM: Loren E. Monroe
Auditor General 

RE: Audit of the Planning and Development Department Real Estate Division's Sale of City-owned Property

C: Mayor Kwame M. Kilpatrick
Douglass Diggs, Planning and Development Director

Attached for your review is our report on the audit of the Planning and Development Department Real Estate Division's Sale of City-owned Property.

This report contains an audit background; audit purpose, scope, objectives, and methodology; agency background; audit findings and recommendations; and the agency's response.

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**Audit of the Planning and Development Department Real Estate Division's
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CONTENTS

	<u>Page</u>
AUDIT BACKGROUND	1
AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY	3
AGENCY BACKGROUND	4
FINDINGS AND RECOMMENDATIONS	5
1. Prices are Drastically Changed With No Documented Justification	6
2. Questionable Disposition of Cancelled Sales	8
AGENCY RESPONSE	ATTACHMENT A

AUDIT BACKGROUND

On August 25, 2005, Fox 2 News reported that Henry Hagood, then Planning and Development Department (PDD) Deputy Director, sold City-owned properties to longtime friends Dalton Brown, Marcellus Oree and Vershawn Oree on at least three occasions. Based on our preliminary analysis of information reported in the media, the Office of the Auditor General (OAG) initiated an audit of the sale of City-owned properties.

The OAG focused its audit on the sale of city-owned properties by the PDD Real Estate Division. The Real Estate Division (Division) procures, sells, manages and maintains City-owned real estate including vacant lots, vacant residential and commercial structures and occupied residential structures.

The OAG determined that the Division has no written policy for handling a property after a bid sale or a sale to a long-term occupant is cancelled. When sales were cancelled, the Division sold the property on a first-come basis with no consideration given to the long-term occupant or to other unsuccessful bidders. In many of the sales reviewed, the final sale price was much lower than the bid sale price or the price that was offered to the long-term occupant. The property files do not document why the price was substantially lower and what factors were considered to justify lowering the price. The lack of documentation indicates that the Division made price changes without regard to the appraisal price initially established by its Property Management section.

Twenty property files were reviewed during our audit.

- | | |
|--------------------------|----------------------------------|
| 1. 19284 Houghton | 11. 18922 Lumpkin |
| 2. 1711-1713 Calvert | 12. 11374 Hartwell |
| 3. 18009 Mitchell | 13. 49 Lawrence |
| 4. 3951 Field | 14. 2969 & 2977 Lathrop |
| 5. 15849 Ward | 15. 17573 Kentfield |
| 6. 15145 Brammell | 16. 14581 Hubbell |
| 7. 9217 Forrer | 17. 4439 17 th |
| 8. 3289 W. Philadelphia | 18. 5647 & 5655 24 th |
| 9. 4462 33 rd | 19. 19227 Albany |
| 10. 47-49 W. Arizona | 20. 5040 Vermont |

Four of the twenty properties examined were randomly selected because they were thought to have no connection to Dalton Brown or the Orees. The analysis of these four files disclosed that all four properties were sold through bid sales; none of the sales were cancelled and none of the prices were reduced.

Six of the twenty property files reviewed had documentation that indicated Dalton Brown was involved in the sales transaction. The six properties are listed on page two of this report. Three of the property files included documentation from the purchasers allowing Dalton Brown to act as the purchasers' authorized agent. For the property on Lawrence Street there is a document from the purchaser allowing the deed to be released to Dalton Brown. For two of the properties, documentation was provided instructing the Division to contact Dalton Brown regarding those properties.

Property Address	Purchaser	Dalton Brown Involvement
15145 Brammell	MV Diversified (Oree Company)	Purchaser's Agent
9217 Forrer	MV Diversified (Oree Company)	Purchaser's Agent picked up the deed on behalf of the purchaser.
49 Lawrence	James Dixon	Purchaser's Agent
18922 Lumpkin	Marcellus Oree	Purchaser's Agent
11374 Hartwell	Vershawn Oree	Purchaser's Agent
14581 Hubbell	Marcellus Oree	Purchaser's Agent

After media reports indicated a link among the Orees, Dalton Brown, and Henry Hagood, the Division received eight letters from MV Diversified dated August 29, 2005. These letters asked that the sale of the properties located at 4462 33rd, 15145 Brammell, 3951 Field, 9217 Forrer, 19284 Houghton, 18009 Mitchell, 3289 Philadelphia and 15849 Ward be cancelled because the properties had been paid in full, but the deeds for the properties had never been received. The Division stated that it requested an opinion from the Law Department on this matter because the sales had not been approved by City Council. The Division indicated that it had not received a response from the Law Department. Similarly on December 14, 2005, the Division informed City Council of the request made by the purchasers and sought its authorization to accept the purchaser's request for withdrawal from the sale and to refund monies paid. As of February 2005, the City Council had not approved the sale and the Division has neither transferred the deed on seven of the properties noted above nor refunded the monies paid by the purchaser. City Council did approve the sale of one of the eight properties, referred to above, to the long-term occupant.

AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Purpose

The Office of the Auditor General (OAG) initiated the audit of the Planning and Development Department (PDD) Real Estate Division's Sale of City-owned Property after a preliminary analysis of information related to issues brought to the attention of the OAG by news reports on Fox 2 on August 25, 2005. Fox 2 News reported that Henry Hagood, then PDD Deputy Director, sold City-owned properties to longtime friends Dalton Brown, Marcellus Oree and Vershawn Oree on at least three occasions.

Audit Scope

The scope of the audit included City-owned properties sold through the PDD Real Estate Division between January 2002 and September 2005.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except that the OAG has not received an external peer review within the past three years.

Audit Objectives

The OAG conducted an audit of the PDD Real Estate Division's Sale of City-owned Property to determine whether:

- Policies and procedures were in place for the sale of City-owned properties.
- Properties were sold in accordance with the Division's policies and procedures.

Audit Methodology

To accomplish the audit objectives, our audit included:

- Interviews of the PDD Real Estate Division personnel involved in the maintenance and sale of City-owned property;
- Examination of property sales files to verify documentation of the pricing and sales process;
- Review of the PDD Real Estate Division's policies and procedures;
- Examination of Wayne County Register of Deeds' records; and
- Other audit procedures we considered necessary to achieve our audit objectives.

AGENCY BACKGROUND

The mission of the Planning and Development Department (PDD) is to strengthen and revitalize the City of Detroit's neighborhoods and communities and to stabilize and transform the physical, social and economic environment. The Real Estate Division (Division) procures, sells, manages and maintains City-owned real estate to develop and stabilize neighborhoods and promote business growth.

The Division consists of two sections:

- Property Management is responsible for the intake and maintenance of City-owned property. The Property Management section is also responsible for establishing the appraisal price for City-owned properties sold by the Division.
- Surplus Sales manages the disposition of surplus City-owned properties to citizens and investors dedicated to the revitalization of city neighborhoods.

The Division handles the sale of vacant lots, vacant residential and commercial structures and occupied residential structures. There are three ways in which the public may purchase structures:

1. Bid sales - The Division publishes a list of surplus residential properties each month. Properties are sold to the highest bidder.
2. First-come basis - If no acceptable offers to purchase are received for a property in the bid sale, the property can be sold on a first-come basis.
3. Occupied structure - To reduce the inventory of occupied City-owned properties the division offers to sell occupied structures "as is." Purchasers, including current occupants of the property, must meet eligibility requirements.

PDD instituted a program called E-build to make more desirable properties available for purchase over the Internet. The properties could be viewed and bids submitted electronically. That program was discontinued in the summer of 2005.

FINDINGS AND RECOMMENDATIONS

The following table shows the twenty properties that were examined during the audit. It includes the appraisal price, if one was included in the property file, the cancelled sale price if applicable, the final sale price, the percentage change between the appraisal price and the final sale price, the percentage change between the cancelled sale price and the final purchaser. Properties 1 through 12 are properties in which there was a substantial price decrease between the appraisal price and the final sale price (see Finding #1).

					Percentage Change		
	Property	Appraisal Price	Bid Price	Final Sale Price	Appraisal Price vs. Final Sale	Bid vs. Final Sale	Purchaser
1.	19284 Houghton	\$18,900	\$18,900	\$500	(97.4)%	(97.4)%	Vanguard-Ortech Development/ Vershawn Oree
2.	1711-1713 Calvert*	\$19,200	\$19,400	\$2,000	(89.6)%	(89.7)%	LanTech Realty/ Durand Jackson
3.	18009 Mitchell*	\$12,500	\$12,000	\$1,000	(92.0)%	(91.7)%	MV Diversified
4.	3951 Field*	\$10,000	\$5,000	\$1,000	(90.0)%	(80.0)%	MV Diversified
5.	15849 Ward	\$29,800	\$29,800	\$4,000	(86.6)%	(86.6)%	MV Diversified
6.	15145 Brammell	\$14,200	\$3,200	\$2,500	(82.4)%	(21.9)%	MV Diversified
7.	9217 Forrer*	\$10,200	\$11,000	\$2,500	(75.5)%	(77.3)%	MV Diversified
8.	3289 W. Philadelphia	\$10,600	\$10,600	\$500	(95.3)%	(95.3)%	MV Diversified
9.	4462 33 rd	\$6,400	\$6,770	\$500	(92.2)%	(92.6)%	Vanguard-Ortech Development/ Vershawn Oree
10.	47-49 W. Arizona	\$18,900	N/A	\$5,000	(73.6)%	N/A	Vershawn Oree
11.	18922 Lumpkin	\$21,600	N/A	\$8,000	(63.0)%	N/A	Marcellus Oree
12.	11374 Hartwell	\$6,000	N/A	\$2,500	(58.3)%	N/A	Vershawn Oree
13.	49 Lawrence	\$22,000	N/A	\$16,000	(27.3)%	N/A	James Dixon
14.	2969 & 2977 Lathrop	\$16,900	N/A	\$9,000	(46.7)%	N/A	Marcellus Oree
15.	17573 Kentfield	Unknown	Unknown	\$500	N/A	N/A	LanTech Realty/Durand Jackson
16.	14581 Hubbell	Unknown	Unknown	\$2,500	N/A	N/A	Marcellus Oree
17.	4439 17 th *	\$4,000	\$5,000	\$5,000	25.0%	N/A	Vance C. Lewis
18.	5647 and 5655 24 th *	\$3,750	\$6,500	\$6,500	73.3%	N/A	Gerardo Villasenor
19.	19227 Albany*	\$22,900	\$22,900	\$22,900	0%	N/A	Reggie Lewis Bledsoe
20.	5040 Vermont*	\$4,200	\$6,600.10	\$6,600.10	57.2%	N/A	Pawel Mank

* Indicates the property was put on the bid list and did have interested bidders.

N/A = Not applicable

1. Prices are Drastically Changed With No Documented Justification

The Division does not have written policies and procedures for the determination and documentation of price adjustments made to properties after the Property Management section establishes an appraisal price. The Division's Executive Manager drastically changed the price set by the Property Management section of the Real Estate Division to a much lower sales price for twelve of the twenty properties reviewed. The files did not document, nor could the Executive Manager provide, justification for the substantial price reductions.

The table on page five shows the twenty property sales examined during the audit. The first twelve properties (highlighted in green) are the properties in which there was a substantial price decrease between the appraisal price and the final sales price. Five of the twelve properties had a price decrease of 90 percent or more from the price established by the Property Management section to the final sales price.

The last four properties included on the table were randomly selected and were not properties thought to be involved with either Dalton Brown or the Orees. For each of these four properties the final sales price was at or above the price established by the Property Management section. All four of these properties were sold through bid sales. None of these sales were cancelled nor were the prices reduced for any reason.

The following circumstances raise questions as to the propriety of the price reductions:

- The files document that all the changes were made solely by the Executive Manager.
- Of the twenty property files examined twelve had substantial price changes.
- The sales staff involved in all the transactions in question indicated they were not involved in, nor were they aware of the justifications for the substantial price changes.
- Of the twelve substantial price reductions eleven were sold to Marcellus or Vershawn Oree or companies in which they are the principals.
- The former PDD Director has acknowledged a relationship with the principals and the agent used by the principals in at least three of the purchases.

When interviewed, the Division's Executive Manager stated there are several reasons a property's sale price may be changed after the Property Management section has established the appraisal price. The property could have been severely vandalized or burned, it could be discovered that the title is cloudy and will be difficult to sell, or it could be discovered that the interior of the house is in much worse condition than was originally estimated.

The Division's Policies and Procedures Manual of Property Sales includes policies and procedures for setting prices in three types of sales. However, the manual is silent on the procedures to be used to adjust the price after the initial price is set.

Recommendations

We recommend the Division develop policies and procedures for:

- Price changes after the Property Management section has established the price.
- The handling of a property after a sale has been cancelled.
- Documentation of price changes, including justification for the price change.

We also recommend that the PDD Real Estate Division Policies and Procedures Manual of Property Sales be amended to include these policies and procedures, and that these policies and procedures be communicated to and adhered to by PDD staff.

2. There was Questionable Disposition of Some Cancelled Sales

Of the twenty property files examined eight properties had sales, which were cancelled, and subsequently sold for a substantially reduced price. There was no justification in the files for the substantial price reduction. In all eight sales, the Executive Manager of the Real Estate Division approved the price reductions.

Three of the properties in question had multiple bidders. The losing bidders were not contacted to determine whether there was still interest in the property when the winning bidders' sale was cancelled. These three properties are detailed below:

- **3951 Field**

There were two bidders for this property in February 2005. The winning bid was for \$5,000. The second bid was for \$4,051. In April 2005 the winning bidder asked to be released from the purchase. There is no documentation to indicate whether the second bidder was contacted to determine if they remained interested in the property. There is an offer to purchase dated June 13, 2005 from MV Diversified, an Oree company, for \$1,000. The property was sold to MV Diversified for this price. This Property Management section appraised the property at \$10,000.

On August 29, 2005, the Division received a letter from MV Diversified asking that the sale of the property be cancelled, because the deed for the property had never been received. In December 2005, the Division requested authorization from the City Council to cancel the sale and return the purchasers money. However, the resolution was not authorized.

- **18009 Mitchell**

Eleven bids were received for this property. The highest and winning bid was \$12,000. The losing bids ranged from \$10,510 to \$5,000.

The Division's property file contained only a copy of a letter to the winning bidder indicating that the PDD granted the bidder's request to cancel the purchase. However, there was no file documentation that the bidder requested cancellation of the sale. There is no documentation in the file to indicate that the next highest bidder, or any of the other bidders were contacted to gauge continued interest in purchasing the property.

The property was not re-bid. The property was sold to MV Diversified for the amount of \$1,000.

On August 29, 2005 the Division received a letter from MV Diversified asking that the sale of the property be cancelled, because the deed for the property had never been received. In December 2005 the Division requested authorization from the City Council to cancel the sale and return the purchasers money. However, the resolution was not authorized.

- **1711-1713 Calvert**

There was only one bidder for this property. The winning (and only) bidder bid \$18,700. The winning bidder backed out of the purchase because of issues with the title. This property was then listed on E-build. E-build was a program

instituted to make more desirable properties available for purchase over the Internet. The program was discontinued in the summer of 2005. There were two bids included in the file from the E-build process. The winning E-build bid was for \$19,400; the other was for \$18,000. The winning E-build bidder backed out of the purchase because of issues with the title.

The property was then sold to LanTech Realty (a Durand Jackson company) for \$2,000. There was no explanation given or documentation in the file to support the substantial price reduction.

There is no documentation in the file to indicate that the second bidder was contacted to gauge continued interest in purchasing the property or that there was public notification that the property was again available for sale.

According to the PDD Real Estate policy and procedures manual, after a property is not sold via the bid process it is available on a first-come basis. However, unless prior bidders were notified, they would only assume the property was sold.

According to the Division's Executive Manager it is not PDD's policy to contact other bidders when a sale is cancelled, due to the amount of time that can pass between when bids are submitted and when a sale may be cancelled.

4462 33rd

For the property located at 4462 33rd, our analysis disclosed that it was in the process of being sold to two different purchasers. The long-term occupant made an offer to purchase for \$6,770. This offer was accepted by PDD and the sale approved by City Council on May 5, 2005. The long-term occupant subsequently requested to renegotiate the price in a letter dated June 1, 2005.

The salesperson processing the sale to the long-term occupant included a memorandum in the file stating that the salesperson had been informed on June 16, that the long-term occupant's sale, which had been approved by City Council, was being cancelled and the property was being sold to another party.

In June 2005 PDD accepted an offer to purchase from Vanguard-Ortech Development/Mrs. Vershawn Oree in the amount of \$500. The file contains a copy of a check from Vanguard-Ortech for \$500 dated June 8, 2005. There is no documentation in the file that the longtime occupant initiated cancellation of the sale. However, City Council cancelled the initial sale.

The property was given an appraisal price of \$6,400 on February 28, 2005. A file note indicated that the price was changed to \$500. This note is dated July 28, 2005 and is initialed by the Division's Executive Manager.

The documentation in the file provides no indication that the long-term occupant was ever given the opportunity to purchase this property for the price of \$500.

The Real Estate Division does not have a written Division policy or procedure for the handling of a property after a sale has been cancelled. Division management and staff differ regarding the Division's practice. Staff interviewed indicated the Executive Manager decides the next steps for all cancelled sales. The Executive Manager

indicated that cancelled sales could be handled in a number of different ways, including property demolition, re-bid or sale to another interested party.

Recommendation

We recommend that the Division develop written policy and procedures for the handling of a sale after it has been cancelled. The policy should include:

- The options available, i.e.: contact other bidders, re-bid the property, sell on a first-come basis, recommend for demolition, etc. The policy should document the criteria for each option; and require that staff document the justification for any option taken.
- The employee(s) that have the authority to approve the option taken.



CITY OF DETROIT
PLANNING & DEVELOPMENT DEPARTMENT

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March 23, 2006

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, MI 48226

Dear Mr. Monroe:

The following represents the Planning and Development Department's response for the indicated finding and related recommendation in the December 2005 Audit of the Planning and Development Department Real Estate Division's Sale of City-owned Property, as prepared by the Office of the Auditor General.

During the fiscal year 2004-05, the department process 1267 sales transactions. Your report highlighted twelve (12) properties in which there was a substantial price decrease between the appraisal price and the final sales price. According to our records, the sale of the following eight (8) properties was held by City Council in June of 2005. On August 29, 2005, the purchasers mailed correspondence to our office requesting the cancellation of the sale and refund of all payments for these properties.

19284 Houghton	4462 33rd St	15849 Ward
3289 W. Philadelphia	18009 Mitchell	13145 Bramell
9217 Forrer	3951 Field	

As of March 21, 2006, our office sent refund requests in writing to the Financial Management Division for processing.

In regards to the remaining four (4) properties, our records reveal that these properties have been sold and a Quit Claim Deed has been issued on each property as cited in the following table:

ADDRESS	PURCHASER	COUNCIL APPROVAL	DATE DEED ISSUED
1711-13 Calvert	Lantech Dev. Corp.	07/15/2005	08/11/2005
47-49 W. Arizona	Vershawn Oree	03/16/2005	05/02/2005
18922 Lumpkin	Marcellus Oree	11/22/2004	02/09/2005
11374 Hartwell	Vershawn Oree	02/23/2005	03/11/2005



Finding No. 1. Prices are Drastically Changed With No Documented Justification

The division does not have written policies and procedures for the determination and documentation of price adjustments made to properties after the Property Management section establishes an appraisal price. The Division's Executive Manager drastically changed the price set by the Property Management section of the Real Estate Division to a much lower sales price for twelve of the twenty properties reviewed. The files did not document, nor could the Executive Manager provide, justification for the substantial price reductions.

Department's Response:

Policy and Procedures for price changes after Property Management Section has established the price.

It is the duty/responsibility of the Planning & Development Department Real Estate Division to promote the sale of all Surplus Real Property as designated in the Detroit City Code, Section 14-8-4. In those cases where the department has made every effort to promote the sale without success, the Real Estate Sales Division reserves the right to make a price adjustment to the sale price that has been established by Property Management to further promote the sale of property without referring the file back to Property Management for re-pricing. This adjustment may come about for a number of reasons to include but not limited to the re-use of the Property, the size of the Property, condition of the Property and the current economic climate.

In the event a price change is to occur, the approval of such change must be signed/approved by the sales supervisor (and/or) Sales Manager (and/or) Executive Manager. Such approval must be accompanied by "Real Estate Sales Price Adjustment form No. 3206-1" (copy attached).



Finding No. 2. There was Questionable Disposition of Some Cancelled Sales

Of the twenty property files examined eight properties had sales, which were cancelled, and subsequently sold for a substantially reduced price. There was no justification in the files for the substantial price reduction. In all eight sales, the Executive Manager of the Real Estate Division approved the price reductions.

Department's Response:

Policy and Procedures for handling of a sale after it have Been Cancelled.

The Division reserves the right at all times to act in what it considers to be the best interest of the City, including without limitation, the right to withdraw properties from sale because of unforeseen circumstances; changes in condition of the property; title issues or other legal or equitable issues; purchaser's failure to timely respond or proceed; property becomes necessary to another City-supported project prior to the issuance of a Quit Claim Deed.

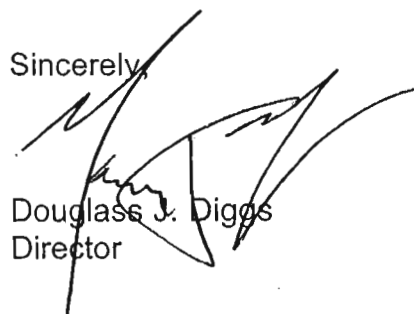
The Real Estate Division reserves the right to exercise several options when a sale is cancelled/withdrawn. In the event of a bid sale, an offer will be made to the 2nd and 3rd bidders respectively. If these bidders do not exercise this option then, (1) the property may be offered on a First Come/First Serve basis, (2) Re-bid the property or (3) recommend Demolition.



In the event a sales cancellation/withdrawal occurs, the approval of such action must be signed/approved by the sales supervisor (and/or) Sales Manager (and/or) Executive Manager. Such approvals must be accompanied by the "Real Estate Sales Cancellation/Withdrawal Form No. 3206-2" (copy attached).

These policies and procedures have been communicated to the Real Estate Sales Staff and are now being implemented.

Sincerely,



Douglass J. Diggs
Director

Attachments

DJD:OE:mn-t:

cc: Alan Levy, Deputy Director, P&DD
O'Neal Edwards, Executive Manager, Real Estate
Margaret Neal-Thompson, Sales Manager, Real Estate

**REAL ESTATE DIVISION
SALES PRICE ADJUSTMENT FORM – 3206-1**

PROPERTY ADDRESS _____

ORIGINAL SALES PRICE

FINAL SALES PRICE

REASON FOR PRICE CHANGE:

DATE

SALES PERSON

SALES SUPERVISOR

SALES MANAGER

EXECUTIVE MANAGER

SALES ADJUSTMENT REASONS: REUSE, LOT SIZE, ZONING CHANGE, PROPERTY
CONDITION, ETC;

DRAFT

Appraisal Price
True Cash Value
Comparable

System Generated
System Generated

Zillow.com
Others 1
Others 2
Others 3

BaseLine Property Price

User Entered

(1) (Either avg or one of the above values)

Discounts

Direct Costs

Infrastructure Improvements
Lot Preparation
Demolition costs saved

Direct benefits

20% of Property Tax generated over 18 Months
Calculated as Assessed Value * 1.5 yrs * .0116
where Assessed Values = Unit sales price / 2
and .0116 is calculated as 20% of 58 mills

(2) (Total of Direct Costs and benefits)

Non-Structure

Job Creation/Spin-off Development
Removal of Blight/Stabilizing neighborhoods
Salvaging existing housing stock
Development of moderate income housing
Development of low income housing
Neighborhood business development
Development of community use facilities
Creation of home ownership opportunities
Amount of Investment
Other positive economic impacts, as identified

Discount %

R& NR upto 20%
R&NR upto 10%
R upto 10%
R upto 10%
R upto 30%
R upto 20%
R upto 5% NR upto 10%
R upto 10%
R&NR upto 20%
R&NR upto 10%

(3) (Total of Non-Structure Discounts)

Structure

Roof
Steps
Windows
Exterior Walls
Gutters
Garages
Down Spout
Porches
Interior Surfaces
Furnace
Flooring
Plumbing
Basement
Electrical

Discount %

10%
5%
10%
5%
5%

(4) (Total of Non-Structure Discounts)

Total amount of Discounts

(1-2)*((3+4)/100) (5)

Final Price

1 - 5